

## **MINUTES**

### **MONTANA HOUSE OF REPRESENTATIVES 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIRMAN BOB STORY**, on January 16, 2001 at 8:00 A.M., in Room 472 Capitol.

#### **ROLL CALL**

**Members Present:**

Rep. Bob Story, Chairman (R)  
Rep. Ron Erickson, Vice Chairman (D)  
Rep. Roger Somerville, Vice Chairman (R)  
Rep. Joan Andersen (R)  
Rep. Keith Bales (R)  
Rep. Joe Balyeat (R)  
Rep. Gary Branae (D)  
Rep. Eileen Carney (D)  
Rep. Larry Cyr (D)  
Rep. Rick Dale (R)  
Rep. Ronald Devlin (R)  
Rep. John Esp (R)  
Rep. Gary Forrester (D)  
Rep. Verdell Jackson (R)  
Rep. Jesse Laslovich (D)  
Rep. Trudi Schmidt (D)  
Rep. Butch Waddill (R)  
Rep. Karl Waitschies (R)  
Rep. David Wanzenried (D)

**Members Excused:** Rep. Daniel Fuchs (R)

**Members Absent:** None.

**Staff Present:** Jeff Martin, Legislative Branch  
Rhonda Van Meter, Committee Secretary

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: HB 247, 1/12/2001; HB 248,  
1/12/2001

Executive Action: None.

HEARING ON HB 247

Sponsor: REPRESENTATIVE DAVE LEWIS, HD 55, Helena

Proponents: Barry Stang, Montana Motor Carriers Association  
Ray Kuntz, Watkins & Shepard Trucking  
Mary Allen, Western Environmental Trade Association  
Cary Hegreberg, Wood Products Association  
Webb Brown, Montana Chamber of Commerce  
Bob Gilbert, Montana Tow Truck Association

Opponents: Eric Feaver, MEA-MFT

Opening Statement by Sponsor:

*{Tape : 1; Side : A; Approx. Time Counter : 2.8}*

**REPRESENTATIVE LEWIS** said this bill is about fairness. In 1997, the property tax on large trucks was converted to GVW, which was designed to generate the same amount of dollars at a 6% tax. In 1999, the business equipment property was reduced to 3% and the GVW fees remained at the old level of 6%. They are proposing to reduce that tax to 3% equivalent to other business equipment in the state and phase it out over three years. The fiscal note is not yet available, but the impact would possibly be between \$1.5 million to \$2.0 million. They would offer amendments to stretch this out over four years in order to keep the impact on the biennium somewhere within that range. The trucking industry is presently facing some hard times in the state, and the energy crisis has affected them as well. The increase in fuel prices has increased their fuel costs per mile from \$.10 in 1998 to \$.24 now. The problems in the lumber industry has also affected the trucking industry. This industry employs over 26,000 people.

Proponents' Testimony:

**Barry "Spook" Stang, Montana Motor Carriers Association**, handed out testimony of people who could not attend the hearing.

**EXHIBIT(tah12a01), EXHIBIT(tah12a02)** Prior to the 1997 legislature, trucks were considered Class 8 business equipment. SB 57 passed in 1997 moved trucks out of business equipment and implemented a fee in lieu of taxes. This also eliminated a problem the government had determining the tax on new trucks. During this same session, the business equipment tax was lowered from 9% to 6%, so the fee in lieu of taxes was based on this 6%. In 1999, the legislature reduced the tax on business equipment from 6% to 3% but did not adjust the rate for large trucks. They feel this was an oversight and that this tax is unfair. This

bill is designed to implement a staggered approach to limit the revenue impact. Trucks are licensed on a calendar year. This bill will also allow government licensing agencies to charge the appropriate fee for each calendar quarter. **EXHIBIT(tah12a03), EXHIBIT(tah12a04)** One handout shows the tax burden on trucks in Montana versus trucks in other states. Montana ranks 15<sup>th</sup> in the country in this category. Even after this break is phased in over three years, Montana would still be 19<sup>th</sup> or 20<sup>th</sup>. The other handout shows the cost per mile of operating rigs. The trucking industry is a good part of Montana's economy, and there have been a number of companies who could not survive and closed their doors. Others have looked at the possibility of moving to other states. The passage of this bill might encourage some of those businesses to remain in Montana and provide jobs.

**Ray Kuntz, CEO, Watkins Shepard Trucking,** read his written testimony. **EXHIBIT(tah12a05), EXHIBIT(tah12a06)**

**Mary Allen, Western Environmental Trade Association,** said it is important to agriculture, labor, business, industry, recreation, and trade associations that they are served by viable trucking industry.

**Cary Hegreberg, Montana Wood Products Association,** said this would make the member companies more competitive in this market place.

#### **Opponents' Testimony:**

**Eric Feaver, MEA-MFT,** said this will cut \$1-2 million out of the capacity of public schools, university systems, and government to deliver programs and services. There is a reimbursement scheduling, but this is only for lost revenue and no in any way lowering capacity. Lost revenue and tax shifting just shifts the burden to others.

#### **Questions from Committee Members and Responses:**

**REPRESENTATIVE ERICKSON** asked how much money this particular fee brings into the state right now. **REPRESENTATIVE LEWIS** replied the estimate is \$6 million per year, so the theory in phasing it out over three years was to reduce the cost the first year to \$2 million. **REPRESENTATIVE ERICKSON** said there is a fairness issue here but asked if it was also true there is a trigger so the overall business equipment tax will very likely go to zero and someone in the industry would be here in the future asking for the fee to go to zero because this is a fairness issue as well. **REPRESENTATIVE LEWIS** said possibly depending if the fee will trigger down. This depends a lot on the status of the industry.

If in a couple of years there are further and continuing problems, it might be possible industry would seek a reduction. For today, this is an industry that may be downsizing dramatically if they do not get some relief, and this may not make the entire difference, but it might effect decisions of what they are going to do in the future. **REPRESENTATIVE ERICKSON** asked if there could be a review of the 1997 change from Class 8 to a fee and why this happened then. **Dave Galt, Director, Department of Transportation**, said he spent 22 years with the Motor Carriers Services Division in the Department of Transportation and also worked for the Montana Motor Carriers Association. The primary reason for this change was there was a problem taxing intrastate trucks versus interstate trucks. The problems were based on how to determine value. They used value books for intrastate trucks and used a depreciation schedule on interstate trucks. Value guides for trucks were not very accurate in their price and not indicative to the prices in this area. Every state in the country had carriers that also operate in Montana and had to calculate Montana's tax rates, which was very complicated and not very accurate. They went to the legislature and asked that they consider a flat fee.

**REPRESENTATIVE CARNEY** asked if the money from logging trucks currently stays in the county. **REPRESENTATIVE LEWIS** replied it does, and this bill would reimburse them for the loss of revenue. **REPRESENTATIVE CARNEY** asked how the reimbursement is set up. **REPRESENTATIVE LEWIS** said the objective during the first year of phase-out would be that they calculated what each county lost and reimburse them from the state general fund. During the next year of the phase-out, the reimbursement they received the first year would be doubled. The third year it would be increased again. They do, however, lose the growth from that fee in the future.

**REPRESENTATIVE SOMERVILLE** said there are already counties in the state losing the capability to do logging, so the process of losing the fees has already started. When the fee is set at the 1999 level, would those counties also have to have a reduction because the number of trucks being lost. **REPRESENTATIVE LEWIS** may actually be a benefit, because if there are trucks being lost in the future, the reimbursement is going to be based on the first year. The counties who would have growth in trucks will be hurt but would benefit the counties with a reduction in trucks. **REPRESENTATIVE SOMERVILLE** referred to the handout from the Montana Motor Carriers Association and said with the surrounding states taken into consideration, the Montana trucker pays the highest amount of fuel tax and a high annual state highway users fee, so it appears there is already a high tax on these rigs as it is. He asked where the user tax goes. **Barry Stang** said there is the fee in lieu of tax on trucks, the GVW fee, and other fees

individuals pay on licensing. Those fees are not being reduced. The fuel tax goes into the reconstruction trust fund. The fee in lieu of tax goes to the local governments. The GVW fee also goes to the highway account. The only fee being reduced is the fee in lieu of tax going to the counties. The trucks will continue to pay a pretty high amount of tax and will still pay approximately \$5100 down from \$5400.

**REPRESENTATIVE SCHMIDT** asked if a clarification could be made as to where the GVW tax goes. **Barry Stang** replied it does go to the highway trust fund. **REPRESENTATIVE SCHMIDT** asked who the losers will be. **Barry Stang** said the loser will be the general fund of Montana, but the real loser will be the state as a whole if these trucks are continued to be taxed and can no longer operate in the state. There are a number of truckers who run their trucks out of Spokane but live in Montana. If the firms are run out of Montana to Spokane, those workers will be lost and the real loser will be the state.

**REPRESENTATIVE WAITSCHIES** asked that if the fuel tax would remain the same, how would it benefit truckers to move out of state. **Ray Kuntz** replied he did not allege they would move out of state. He had mentioned there are a bunch of them about to go out of business. There is a shift to go out of state because there is no freight here to haul. They face the decision of whether to stay in Montana or not every year. Regarding the fuel tax, any truck driving through the state have to pay the same tax. The real risk is trucks moving out of the state and being licensed in those other states. The trucking companies just want to be on a level playing field with every other business paying business equipment tax in Montana. **REPRESENTATIVE WAITSCHIES** asked since the majority of fees are paid in fuel tax, is it more of the lack of business in Montana rather than the reduction in fees that would determine whether they stay in business. **Ray Kuntz** said that is always the situation, but the reduction in fees will help them stay located in Montana. **REPRESENTATIVE WAITSCHIES** asked if a \$200 reduction in fees would really make a big difference regarding where they locate. **Ray Kuntz** said they have 600 trucks, so take \$200 times 600. It is a business decision, and when times are hard, this affects those decisions.

**REPRESENTATIVE BALLYEAT** asked if it was correct that, according to a chart handed out, Montana's registration fees are \$1543 and Washington's are \$1659, and why people were relocating out of Spokane. **Barry Stang** said the people in his district work for companies located in Spokane. Their fee is close to Montana's fee, although the overall tax burden is less. Part of this reasoning is there are no goods left in Montana to transport out of the state and Spokane is a good sized industrial area. It is

hard to get the drivers back to Montana. **REPRESENTATIVE BALLYEAT** asked if there was some other difference in Montana's tax structure that would encourage people to be residents of Spokane and that since Washington has no income tax if that was the incentive for people to locate there rather than the differences in licenses and fees. **Barry Stang** said if he had the ability to live in western Montana and pay income taxes in Spokane, enjoy the benefit of no sales tax in Montana, and not pay that sales tax in Spokane, he probably would do that.

**REPRESENTATIVE SCHMIDT** referred to Exhibit 3 reading "trucks and buses over one ton still pay a flat fee based on 6% business property tax" and wondered if there was a chart showing how this compares to other states. **Barry Stang** said the chart showing the annual registration and weight fees comes close. In Montana, the annual fees are about \$1543. If the highest fee in lieu of taxes of \$750 and the GVW tax at \$750 plus all the weed fees, that equals about that \$1543. Then the fuel tax is also added. Looking at Oregon, they have a weight distance tax with very low fees, but they are also the highest tax trucking industry. He said he could possibly get this from the American Trucking Association.

**CHAIRMAN STORY** asked if heavy trucks pay the local option tax like cars and light vehicles do at the county level.

**REPRESENTATIVE LEWIS** replied no. **CHAIRMAN STORY** said a flat fee was just implemented on cars and light vehicles and wondered how the fee structure for trucks compared to this for value.

**REPRESENTATIVE LEWIS** said this has not been done, but it could be done for the committee. **Barry Stang** said an \$80,000 truck pays approximately \$750 in flat fee and \$750 in GVW fee. A \$30,000 vehicle pays \$195 flat fee. Motor homes have a value of \$500,000, much more than a lot of trucks on the road, and only pay a flat fee of \$250.

**Closing by Sponsor:**

***{Tape : 1; Side : A; Approx. Time Counter : 49.4}***

**REPRESENTATIVE LEWIS** said in this industry the major argument for this bill is Montana really should be competitive and fair in comparison with the other industries. This is an industry that needs help if they want to retain jobs.

**HEARING ON HB 248**

**Sponsor: REPRESENTATIVE JOSEPH TROPILA, HD 47, Great Falls**

**Proponents:**      **Eric Feaver, MEA-MFT**  
                         **Webb Brown, Montana Chamber of Commerce**  
                         **Harold Blattie, Montana Association of Counties**  
                         **John Youngberg, Montana Farm Bureau & Stockgrowers**  
                         **Association**  
                         **Randy Johnson, Montana Graingrowers Association**

**Opponents:**        None.

**Opening Statement by Sponsor:**

***{Tape : 1; Side : A; Approx. Time Counter : 51}***

**REPRESENTATIVE TROPILA** said this bill speaks for itself. Taxes are hidden in license fees, selective sales taxes, and everything else. A task force of qualified individuals appointed by the governor should be formed to study this over the interim and bring to the next legislature a fair, comprehensive, and equal tax policy for Montana. In Section 1, the makeup of the committees can be changed. Section 1b is a key paragraph that provides analysis to evaluate existing taxes in terms of adequacy, efficiency, burden of incidence, fairness, and effect on economic behavior, including their effect on individual and business decisions.

**Proponents' Testimony:**

**John Youngberg, Montana Farm Bureau & Stockgrowers Association,** said tax structure is a concern for bringing value added industries into Montana. It is evident tax reform in Montana is done when an interest group feels it is wronged by the tax codes and brings this in front of the legislature. There is a need for comprehensive tax reform. We need to take a look at how fair the taxes are, if there are other ways to tax people, and if there are ways to reduce burdens on some people. Studies have been done, but tax policy is still being done the same way.

**Webb Brown, Montana Chamber of Commerce,** said that while traveling around the state they heard over and over again the request to review tax structure on an organized basis. There have been studies in the past, but it is important to look at all of the angles. He offered that if representatives were appointed from the Montana Chamber of Commerce, they will pay their expenses, as they feel this is an extremely important issue and would be happy to take part in this review of the tax system in Montana.

**Harold Blattie, Montana Association of Counties,** said it is very appealing that the committee is not just made up of only

legislators. There has been a great deal of time spent in Montana studying tax reform. Someday maybe we can quit studying it and come up with some tax reform, and this is a good place to start.

**Eric Feaver, MEA-MFT**, said this bill would do what has been done many times over formally and informally. There is no reason this should not continue.

**Randy Johnson, Montana Graingrowers Association**, said they support this bill because once in awhile we get things right.

**Opponents' Testimony:** None.

**Questions from Committee Members and Responses:**

**REPRESENTATIVE BALLYEAT** said there is no fiscal note but there is an appropriation of \$45,000 and talks about expenses of non-legislative members being reimbursed. He asked if clarification could be made if non-legislative members would just have their expenses reimbursed but legislative members would have their expenses reimbursed with additional pay. **REPRESENTATIVE TROPILA** said the appropriation was put in the bill based on research of what this would cost for this interim study. The codes referred to are in the statute now regarding how legislators get paid while serving on any committees.

**REPRESENTATIVE SOMERVILLE** asked what a legislator gets reimbursed and what a citizen gets reimbursed besides the travel.

**REPRESENTATIVE TROPILA** said a legislator would get reimbursed the base pay, expenses, and mileage.

**REPRESENTATIVE JACKSON** asked how this bill would mix with the flat tax bill the sponsor has coming forth. **REPRESENTATIVE TROPILA** said the flat tax bill would be a percentage of the Federal income tax paid with allowable deductions. This would make collection of taxes a lot simpler and possibly eliminate part of the Department of Revenue. The figures given to him for a flat tax as a portion of the Federal income tax were erroneous and they misled him in the actual figure that should have been given, and the flat tax could be part of this study also.

**REPRESENTATIVE SOMERVILLE** asked what the goal of the committee was, whether to go to the legislature or the people with the proposal. **REPRESENTATIVE TROPILA** said the mission is to help our infrastructure, local governments who are struggling, and the citizens of Montana to have a fair and equal taxation system. He envisions a task force reporting to the next legislature and hoping they will pass comprehensive tax reform for Montana.



**REPRESENTATIVE BALES** asked if fees in lieu of taxes will be looked at in conjunction with this. **REPRESENTATIVE TROPILA** replied it would. **REPRESENTATIVE BALES** asked if the sponsor felt it was necessary for an amendment to address those types of fees that are in essence taxes. **REPRESENTATIVE TROPILA** said he envisions looking at everything, but if the committee feels this should be delineated, he would support it.

**Closing by Sponsor:**

**REPRESENTATIVE TROPILA** said it is about time something is done about tax policy in Montana. There are struggling local governments, our infrastructure is down, and taxation is not fair and equitable. There is an enormous income tax that could be lowered, and the tax system should be balanced so local governments and state government do not suffer.

(**Note:** A presentation regarding Montana Coal Severance Taxes was given by John Tubbs after adjournment. **EXHIBIT (tah12a07)**)

**ADJOURNMENT**

Adjournment: 9:10 A.M.

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REP. BOB STORY, Chairman

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RHONDA VAN METER, Secretary

BS/RV

**EXHIBIT** (tah12aad)